



CIO OFFICE MORNING MARKET WRAP – 27th September, 2021. ALSO AVAILABLE ON ALEXA.

Last week was volatile under the double influence of China's Evergrande meltdown on the East, and of the US Fed on the West. The former kept the ball rolling, with increasing signs of an imminent restructuring. The latter quietly confirmed that a faster than expected tapering should start in the coming months, and signalled that interest rates hikes could start later, not excluding 2022. Prices of risk assets had a "V shaped" pattern, starting under pressure but recovering to conclude with benign weekly returns. The key action of last week was certainly to see the US 10-year yields climbing to 1.45%.

Germany was voting Sunday, in a tight race for the country's leadership. Indeed, it appears that no personality convinces everyone on their ability to fill Angela Merkel's shoes. But even legendary leaders have to rest. As often in modern Germany, the alternative is between a center-left and a center-right coalition. The jury is still out but the center-left option has a small lead. The green party, which posted their best-ever results, is in a position to quasi decide the final governing coalition, which means that climate topics will be high on the agenda. It's time: following Germany's anti-nuclear policy following the Fukushima tragedy, and despite heavy investments in renewables, electricity in Germany is one of the worst performing in Europe when it comes to greenhouse gas emissions. Whatever the final coalition is, Mrs Merkel will ensure the transition and we do not expect a material policy shift for both Germany and Europe. The Euro is steady: the only really

adverse scenario would have been a surprise breakthrough of one of the most extreme parties. It didn't happen, at all: both the far-right AfD and the anti-capitalist Left lost support.

The other key news of the end of the week was certainly the decision from China's central bank to simply ban any crypto transaction, by cutting all links with the conventional financial system. This is not the first time that China puts pressure on the field, with a mix of environmental and financial control objectives. This is however the strictest measure by far. As a result, many international exchanges are now banning accounts from China. Prices of crypto assets tumbled on the news on Friday, but again, market participants were probably relatively prepared as price action is softly but firmly recovering. Having said that, more regulation is clearly the number one threat on this digital asset class, and a similar move from US or European authorities would have a massive impact. Talking about relations between America and China, Huawei CFO, Mrs Meng, had a triumphant welcome from media in China when she came back after having been under house arrests in Canada. Beijing freed two Canadian nationals in return. This story has a "cold war" flavor, but it ends well.

As we write this morning, Asian markets are overall well oriented. Stocks in Japan are slightly up, as market participants wait for the nomination of the new leader of the ruling coalition, to become the next prime minister. Hong-Kong is in the green, up 1% after an exhausting week for traders there. The crisis at Evergrande is obviously not solved – it is arguably the beginning, with the key question being how orderly the inevitable restructuring will be. On one hand, authorities are said to have ordered the company not to default - period. On the other, China's housing regulator is now overseeing the developer's bank accounts to ensure that priority is given to complete housing projects over anything else. Australia is up, helped by another rally in commodities. Among them, oil prices continue their winning streak. Based on futures contracts, the barrel of Brent crude oil looks firmly headed to the \$80 mark, currently up 1.3% at \$79. This is obviously not bad news for our region, but this could become a problem for the global economy at some point. For the time being, consumers' pockets in the West are still full of generous "magic money", but between natural gas and petrol, the energy bill is rising. The situation is a bit more worrying in the East; an energy crisis is the last thing China needs at a time when consumption policies are being tightened. Japan and India are also heavy importers. Oil stocks are as a result sought after. Future contracts on Western stock indices are flat in Asia as we write, and interest rates are very modestly lower, with the US 10-year Treasury yield just below 1.45%.

In the week ahead, we will listen to Mr Powell and Mrs Yellen testifying before the US Senate but don't expect breaking news. Also, in Washington, majority leader Pelosi has pledged to pass a \$550 billion infrastructure bill this week – it sounds very confident and could indicate that the US debt ceiling should not be that much of an issue. Later, China will kick off the monthly PMI numbers series on Thursday with the Caixin data, followed by the US on Friday. No doubt, these numbers should not be brilliant, but we believe that markets are prepared for them and expectations are not unbeatable. Forget September, the trend in Q4 will be the most important for the global recovery to complete.

Stay safe.

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